Franchise Tax Board

ANALYSIS OF ORIGINAL BILL

Author:	Matthews	Analyst:	Roger Lackey	Bill Number:	AB 1971
Related Bills:	See Legislative History	Telephone:	845-3627	Introduced Date:	02-14-2002
		Attorney:	Patrick Kusiak	Sponsor:	

SUBJECT: Enterprise Zones/Authorizes Additional Designations For A Total of 44 Zones

SUMMARY

This bill would expand the number of enterprise zones (EZs) that may be designated from 42 to 44.

PURPOSE OF BILL

It appears that the purpose of the bill is to assist economically disadvantaged areas by encouraging businesses to locate in the new zones that would be created by this bill.

EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative January 1, 2003.

POSITION

Pending.

ANALYSIS

FEDERAL/STATE LAW

Existing federal law provides for the existence of empowerment zones and enterprise communities to provide economic revitalization of distressed urban and rural areas.

Qualified zone businesses operating in federal empowerment zones and federal enterprise communities are eligible to receive two tax incentives: (1) tax-exempt private activity bonds to finance certain facilities; and (2) the "brownsfields" tax incentive, which allows taxpayers to expense (rather than capitalize) certain environmental remediation expenditures. Qualified empowerment zone businesses are allowed an additional $20,000 depreciation expense deduction.

Under the Government Code, existing state law allows the governing body of a city or county to apply for designation as an EZ. Using specified criteria, the Technology and Trade and Commerce Agency (TTCA) designates EZs from the applications received from the governing bodies. EZs are designated for 15 years (except EZs meeting certain criteria may be extended to 20 years), and TTCA is authorized to designate 42 EZs under current law (39 currently are designated). When an EZ expires, TTCA is authorized to designate another in its place to maintain a total of 42 EZs.

Board Position:			Department Director	Date
______ S	______ NA	______ NP	Gerald H. Goldberg	03/15/02
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Under the Revenue and Taxation Code, existing state law provides special tax incentives for taxpayers conducting business activities within an EZ. These incentives include a sales or use tax credit, hiring credit, business expense deduction, special net operating loss treatment, and net interest deduction. In addition, a wage credit may be claimed by specified employees of businesses operating in an EZ.

THIS BILL

This bill would authorize TTCA to designate an additional two EZs, thereby increasing the maximum total of EZs to 44.

IMPLEMENTATION CONSIDERATIONS

Implementing this bill would not significantly impact the department's programs and operations.

LEGISLATIVE HISTORY

AB 2342 (Salinas 2001/2002) would expand the number of EZs from 42 to 44. AB 2342 is currently in the Assembly Revenue and Taxation Committee.

AB 46 (Washington Ch.587 Stats 2001) expanded the number of EZs from 39 to 42.

OTHER STATES' INFORMATION

Currently, 29 other states have economic development areas that provide similar tax related incentives to those provided in California's economic development areas. The number of economic development areas varies from state to state. For example, California currently has 50 economic development areas, New York has 58, Florida 32, Illinois 93, and Michigan 23.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Revenue Estimate

Revenue losses are projected to be as follows:

Estimated Revenue Impact of AB 1971 Taxable Years Assumed After December 31, 2002 (Enactment After June 30, 2002) (In $ Millions)			
Fiscal Years	2002-03	2003-04	2004-05
Revenue Impact	(Minor)	(1)	(3)

(Minor) means losses less than $500,000.

Any possible changes in employment, personal income or gross state product that might result from this provision are not taken into account.

Revenue Discussion

Revenue losses for the additional zones proposed under the Personal Income and the Corporation tax laws would largely depend on the amount of qualifying property purchased subject to the sales tax, the amount of wages paid to qualifying employees, and the state tax liabilities of employers claiming these tax benefits.

Total revenue losses for the existing 42 authorized zones (39 actually designated) were over $75 million (average of approximately $2 million per zone) for tax year 1999. Because this bill would apply to significantly depressed areas, revenue losses would most likely be below the average in the initial years of zone designation. Allowance was made for new businesses that might start up in future years.

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